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Improving the financial situation of the United Nations

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Report of the Secretary-General

Summary

The present report updates the information on the financial situation of the United Nations contained in the previous report of the Secretary-General (A/61/556). It also provides a review of the Organization's financial situation as at 31 December 2006 and updated projections to 16 May 2007.

The report considers four main financial indicators: assessments issued; unpaid assessed contributions; available cash resources; and the Organization's outstanding debt to Member States. At 31 December 2006, assessments issued during 2006 were lower than at 31 December 2005 under all categories, except the capital master plan. Unpaid assessments at 31 December 2006 were also higher than at 31 December 2005 for all categories, except peacekeeping operations.

Cash balances at the end of 2006 were higher than at the end of 2005 for the regular budget, the capital master plan and the peacekeeping operations, and lower for the international tribunals.

Amounts owed to troop and equipment providers had increased by over $300 million at 31 December 2006 from 31 December 2005. The increase reflects higher obligations, owing to an increased level of activity, and lower payments, owing to delays in the receipt of assessed contributions. It also reflects the delay in the issuance of assessments for 2007 until the General Assembly adopted a new scale of assessments. The increase in new obligations in 2007 is primarily due to the expansion of the United Nations Interim Force in Lebanon and the full deployment of troops in the United Nations Organization Mission in the Democratic Republic of the Congo, the United Nations Operation in Côte d'Ivoire and the United Nations Mission in the Sudan.

The position of the international tribunals deteriorated in 2006. Outstanding assessments had increased to $51 million at the end of 2006 from $25 million at the end of 2005.

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The financial position of the United Nations remains fragile. Unpaid assessed contributions are heavily concentrated among a few Member States; the final outcome for 2007 will depend in large measure on the payments that they make in the final quarter of 2007. Furthermore, the Organization is faced with an unacceptable increase in its debt to Member States that provide troops and equipment for peacekeeping operations. The only way to overcome this problem and to ensure a more stable financial base for the work of the United Nations is for Member States to meet their financial obligations to the Organization in a fuller and more timely fashion.

I. Introduction

1. The present report updates the information on the financial situation of the United Nations contained in the previous report of the Secretary-General (A/61/556). It also provides a review of the Organization's financial situation at 31 December 2006 and updated projections to 16 May 2007.

2. The picture that the above-mentioned information presents of 2006 is generally quite positive, but not uniformly so; the United Nations still has some way to go before it can achieve a clean bill of financial health.

3. The financial strength of the United Nations has traditionally been measured by four main indicators: assessments issued; unpaid assessed contributions; available cash resources; and the Organization's outstanding debt to Member States.

II. Review of the financial situation at 31 December 2006

4. A review of the financial situation shows decreases in the level of assessments for the regular budget (from $1,828 million at 31 December 2005 to $1,755 million at 31 December 2006), peacekeeping (from $4,738 million to $3,450 million) and the international tribunals (from $295 million to $269 million) compared to the position at 31 December 2005, with an increase for the capital master plan (from $18 million to $109 million). Peacekeeping assessments issued in 2006 are lower than those issued by the end of 2005 because assessments related to the first half of 2007, totalling approximately $1 billion, were deferred and assessed only in January 2007, as the scale of assessments for 2007-2009 was adopted by the General Assembly only in late December 2006. At 31 December 2006, unpaid assessments for the regular budget, the tribunals and the capital master plan were also higher than at the end of 2005. Unpaid assessments for peacekeeping operations were lower and did not reflect assessments that were issued for the first half of 2007.

5. The Secretary-General would like to pay a special tribute to the 17 Member States that had paid in full all assessed contributions due and payable at 31 December 2006 for the regular budget, peacekeeping operations, the international tribunals and the capital master plan: Azerbaijan, Bosnia and Herzegovina, Canada, Denmark, Finland, Germany, Ireland, Kazakhstan, Liechtenstein, New Zealand, Portugal, the Russian Federation, Singapore, Sweden, Switzerland, Thailand and Zambia. Other Member States are urged to follow the example of those countries.

A. Regular budget

6. Assessments and payments to the regular budget were both lower in 2006 than in 2005, by $73 million and $125 million, respectively. Unpaid assessed contributions were up by $28 million at $361 million at 31 December 2006, compared to $333 million at 31 December 2005.

7. On a positive note, 139 Member States had paid their regular budget assessments in full by the end of 2006, only one fewer than in 2005, when the highest level since 2002 was recorded. The Secretary-General wishes to thank the Member States that had honoured their obligations to the regular budget in full at

31 December 2006 and urges all Member States that have not yet done so to date to pay in full their assessed contributions for 2006 as soon as possible.

8. Of the $361 million that remained outstanding at 31 December 2006, over 94 per cent was owed by just 3 of the remaining 53 Member States, namely, the United States of America, with $291 million outstanding; Brazil, $23 million; and Argentina, $28 million. A total of 82 Member States had paid their assessments to the regular budget in full by 16 May 2007, compared to 87 by 16 May 2006.

9. On a less positive note, the financial position of the regular budget at 16 May 2007 was weaker than at the same date in 2006. Although payments received by 16 May 2007 were $240 million higher than on the same date in 2006, unpaid assessed contributions were $102 million higher on 16 May 2007 than a year earlier. This is attributable partly to outstanding assessments at 1 January 2007 being higher than in 2006 and partly to the increase in the regular budget assessment for 2007. The $1.31 billion outstanding at 16 May 2007 is also very highly concentrated, with seven countries (United States of America, Japan, Germany, China, Mexico, Argentina and Saudi Arabia) accounting for over 96 per cent of the total and just two countries ($785 million by the United States and $246 million by Japan) for over 78 per cent. Clearly, the final outcome for 2007 will depend in large measure on the action taken by those particular Member States.

10. Cash resources for the regular budget comprise the General Fund, to which assessed contributions are paid; the Working Capital Fund, authorized periodically by the General Assembly; and the Special Account. At the end of 2006, $150 million of cash was available for the regular budget. At 16 May 2007, that amount stood at $435 million, with another $377 million in related reserve accounts, such as the Working Capital Fund and the Special Account. The positive change for the regular budget is due to a net increase in payments over expenditures in the first quarter of the year. The increase in the working capital fund is due to the increase in the overall level of the fund, to $150 million from $100 million. The modest increase in the Special Account of $3 million from $224 million at 31 December 2006 is due to accumulated interest credited to the fund.

11. It was necessary to draw on reserves in November 2006. On a more positive note, the cash balance of the General Fund was over $100 million higher at 16 May 2007 than a year earlier. The final position will depend in large measure on the action taken by the two countries referred to earlier, namely, the United States and Japan.

12. The net increase in the current year's assessments over payments received to date has resulted in an overall increase in the outstanding amounts, from $361 million at the end of 2006 to $1,311 million at 16 May 2007.

B. Peacekeeping operations

13. The unpredictable nature of the demand for peacekeeping activities makes it hard to predict financial outcomes with any confidence. In addition, peacekeeping has a different financial period, running from 1 July to 30 June rather than from 1 January to 31 December; assessments are issued separately for each operation; and, since assessments can currently be issued only through the mandate period approved by the Security Council for each mission, they are issued for different

periods throughout the year. All of these factors complicate a comparison between the financial situation of peacekeeping operations and that of the regular budget and the tribunals.

14. The total amount outstanding for peacekeeping operations at the end of 2006 was over $1.8 billion. This is approximately $1.1 billion less than the amount of $2.9 billion outstanding at the end of 2005. This is mainly due to the fact that almost $1 billion in assessments as indicated in paragraph 4 above, for 2007, for which budgets had been approved by the General Assembly and mandate periods approved by the Security Council in 2006, were deferred and assessed only in January 2007 because the scale of assessments for 2007 was not adopted until the end of December 2006. Over two thirds of the $1.8 billion outstanding at the end of 2006 was owed by two Member States ($677 million by the United States and $572 million by Japan).

15. Due to the unpredictable amount and timing of peacekeeping assessments throughout the year, it can be more difficult for Member States to keep fully current with assessments. The Secretary-General wishes to give special thanks to the 18 Member States that had paid all peacekeeping assessments that were due and payable on 31 December 2006: Azerbaijan, Bosnia and Herzegovina, Canada, Denmark, Finland, Germany, Ireland, Kazakhstan, Kuwait, Liechtenstein, New Zealand, Portugal, the Russian Federation, Singapore, Sweden, Switzerland, Thailand and Zambia.

16. Although cash available for peacekeeping at the end of 2006 amounted to over $1.7 billion, it was divided between the separate accounts maintained for each peacekeeping operation; furthermore, there are restrictions on the use of that cash. In its resolutions on the financing of peacekeeping operations, the General Assembly has specified that no peacekeeping mission shall be financed by borrowing from other active peacekeeping missions. In addition, the terms of reference of the Peacekeeping Reserve Fund restrict its use to new operations and the expansion of existing ones. Of the total cash available in peacekeeping accounts at the end of 2006, $1,154 million related to active missions, $484 million to closed missions, and the balance of $122 million to the Peacekeeping Reserve Fund.

17. The financial position of peacekeeping operations at 16 May 2007 shows some improvement. New assessments of over $2.5 billion had been issued by that date, including assessments of $444 million issued on 27 April 2007. Against this, contributions of over $2.7 billion were received, reducing the amount outstanding from over $1.8 billion to $1.6 billion. In this regard, the Secretary-General wishes to pay special tribute to the 24 Member States that had paid all peacekeeping assessments that were due and payable on 16 May 2007: Australia, Austria, Azerbaijan, Botswana, Canada, the Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Liechtenstein, Madagascar, Monaco, Mozambique, New Zealand, the Republic of Korea, the Russian Federation, Singapore, Sweden, Switzerland, Thailand and the United Kingdom of Great Britain and Northern Ireland.

18. On the basis of information currently available, the total cash available in peacekeeping accounts at the end of 2007 is expected to amount to just $1.4 billion: $816 million in the accounts of active missions, $453 million in the accounts of closed missions and $146 million in the Peacekeeping Reserve Fund. These

estimates are based on projected income and expenditures and on the proposed retention of cash balances in closed peacekeeping operations.

19. Of the $453 million expected to be available in the accounts of closed peacekeeping operations at the end of 2007, $335 million relates to amounts to be paid for outstanding liabilities, such as troop and equipment payments and credits to be returned to Member States. That leaves only $118 million freely available for possible cross-borrowing for other accounts, including the regular budget, the international tribunals and active peacekeeping operations. Cross-borrowing from the accounts of closed peacekeeping operations was required in 2006 and 2007 for three active operations (the United Nations Interim Administration Mission in Kosovo, the United Nations Observer Mission in Georgia and the United Nations Mission for the Referendum in Western Sahara).

C. International tribunals

20. The financial position of the International Criminal Tribunal for Rwanda and the International Tribunal for the Former Yugoslavia deteriorated in 2006. Outstanding assessments for the two tribunals fell to $25 million at the end of 2005, but had increased again to $51 million by the end of 2006.

21. The unpaid assessment of $51 million at the end of 2006 was highly concentrated, as only five Member States accounted for more than 86 per cent of the total ($37 million by the United States, $3 million by Argentina, $2 million by Brazil and $1 million each by Indonesia and the United Arab Emirates). Much will depend, therefore, on the action taken by those Member States.

22. A total of 99 Member States had paid in full their assessed contributions for both international tribunals by the end of 2006, up from 93 at the end of 2005. However, owing to the composition of payments, the outstanding balance showed an increase rather than a decrease from 2005. The Secretary-General wishes to express his appreciation to those 99 Member States that had paid in full their assessed contributions by 31 December 2006 and, in view of the continuing uncertainty of the tribunals' finances, he urges other Member States to follow their example.

23. The situation in 2007 continues to show a modest improvement. Nine more Member States had paid in full their assessed contributions to both tribunals at 16 May 2007 than at the same date in 2006. Although the amount paid was higher ($193 million as compared to $152 million in 2006), the amount outstanding was also higher than in 2006 ($153 million as compared to $142 million).

24. If recent positive trends in 2007 continue, the tribunals are expected to end the year with positive cash balances. Once again, however, the actual outcome will depend on whether Member States continue to honour their financial obligations to the tribunals.

D. Capital master plan

25. In its resolution 61/251, the General Assembly approved a total budget for the capital master plan of $1.88 billion.

26. The plan is to be funded by the assessed contributions of the Member States.

27. Two funding options were approved by the Assembly:

(a) One-time assessment, whereby Member States settle their total capital master plan assessments in full in 2007, based on the 2007 rates of assessment;

(b) Multi-year assessment, whereby Member States make equal payments over five years based on the rates of assessment for 2007.

28. Currently, 181 Member States adopt the multi-year payment system, while 11 Member States have opted for one-time payment. At 16 May 2007, 168 Member States had made payments totalling $334 million, with $171 million still outstanding.

29. In addition to the cost of project, the Assembly approved the establishment of a working capital reserve of $45 million. The reserve is to be funded from the advances from Member States and is apportioned at the rates of assessment for 2007. At 16 May 2007, 80 Member States had already made payments for the reserve, which totalled $32.4 million.

30. The deadline for Member States to be considered having made payment in full and on time is 120 days after the date of issuance of assessments. At the deadline on 7 May 2007, 50 Member States had paid in full. Subsequent to the deadline, 10 more Member States paid, resulting in a total of 60 having paid in full as at 16 May 2007.

31. Regrettably, 24 Member States have not yet made any payments to the capital master plan.

III. Debt to Member States

32. The amount owed for troops and formed police units and contingent-owned equipment at 31 December 2006 was $1 billion. The increase over the $695 million reported at 1 January 2006 is due to the full deployment of troops and formed police units in the United Nations Operation in Côte d'Ivoire and the United Nations Mission in the Sudan, additional troops and formed police units in the United Nations Organization Mission in the Democratic Republic of the Congo, the expansion of the United Nations Interim Force in Lebanon (UNIFIL) and the establishment of the United Nations Integrated Mission in Timor-Leste. It is projected that, if the receipt of assessments for 2007 continues to improve, thereby permitting an increase in projected payments from $1.1 billion to $2.1 billion, debt will be reduced to $589 million by the end of 2007. Projected payments for 2007 are also dependent on the timely finalization of memorandums of understanding, particularly for UNIFIL. At 16 May 2007, of the 302 memorandums for all peacekeeping missions, 62 (21 per cent) were yet to be finalized. Of the 62 memorandums pending finalization, 44 relate to UNIFIL. Naturally, the level of payments will depend on Member States meeting their financial obligations to the United Nations.

IV. Conclusions

33. There were some encouraging signs of progress in the financial position of the Organization in 2006, as evidenced by the number of Member States that are meeting their financial obligations to the Organization in full.

34. The Secretary-General wishes to pay a special tribute to the Member States that had paid in full all assessments for the regular budget, the international tribunals, the peacekeeping operations and the capital master plan that were due and payable at 16 May 2007; Australia, Austria, Azerbaijan, Botswana, Canada, Denmark, Finland, Ireland, Italy, Liechtenstein, Monaco, Mozambique, New Zealand, the Republic of Korea, the Russian Federation, Singapore, Sweden, Switzerland, Thailand and the United Kingdom. In addition, South Africa has paid in full its due and payable assessments since 16 May 2007. Other Member States are urged to follow the example of these countries.

35. On a less positive note, however, the financial position of the regular budget at 16 May 2007 was weaker than at the same date in 2006. Of the $1.31 billion outstanding at 16 May 2007: seven countries accounted for over 96 per cent of the total and just two countries for over 78 per cent. Clearly, the final outcome for 2007 will depend in large measure on the action that will be taken by those particular Member States. The only way in which these issues can be resolved is for Member States to meet their financial obligations to the United Nations in full and on time.